

**Supporting Statement for the
Consolidated Report of Condition and
Income for Edge and Agreement Corporations
(FR 2886b; OMB No. 7100-0086)**

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to extend, with minor revision, the Consolidated Report of Condition and Income for Edge and Agreement Corporations (FR 2886b; OMB No. 7100-0086). This reporting form is filed quarterly by banking Edge and agreement corporations¹ and investment (nonbanking) Edge and agreement corporations. The mandatory FR 2886b comprises a balance sheet, income statement, two schedules reconciling changes in capital and reserve accounts, and 11 supporting schedules. The reporting form parallels the Consolidated Reports of Condition and Income (Call Report) (FFIEC 031 and FFIEC 041; OMB No. 7100-0036) that commercial banks file and the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C; OMB No. 7100-0128) filed by large bank holding companies (BHCs). Except for examination reports, it provides the only financial data available for these corporations. The Federal Reserve is solely responsible for authorizing, supervising, and assigning ratings to Edge and agreement corporations. The Federal Reserve uses the data collected on the FR 2886b to identify present and potential problems and monitor and develop a better understanding of activities within the industry. Most Edge corporations are wholly owned by U.S. banks or BHCs and are consolidated into the financial statements of their parent organizations. However, six banking Edge corporations are owned by foreign banks or nonbanking organizations.

The Federal Reserve proposes to revise the FR 2886b reporting form and instructions to clarify the reporting of the net change in fair values of financial instruments accounted for under a fair value option. Also, the Federal Reserve proposes to revise the reporting of restructured loans and leases. Lastly, the Federal Reserve requests latitude to modify proposed revisions to the FR 2886b that are appropriate and consistent with any proposed revisions and instructional changes to the FR Y-9C for implementation in 2011.

The total current annual burden for the FR 2886b is estimated to be 1,679 hours. The Federal Reserve believes that the increase to the burden for the FR 2886b would be negligible based on the proposed revisions and, therefore, the average ongoing annual burden for this family of reports would remain unchanged from current estimates. A copy of the draft reporting form and instructions, marked to show the proposed changes, is attached.

Background and Justification

The Federal Reserve has the sole supervisory and regulatory authority over all Edge and agreement corporations, under Sections 25 and 25A of the Federal Reserve Act, regardless of

¹ Regulation K defines an Edge corporation as being engaged in banking if it accepts deposits in the U.S. from nonaffiliated parties as an ordinary part of its business.

whether they are owned by U.S. banking organizations, foreign banks, or nonbank companies. Edge and agreement corporations have been operating since 1919 and during most of that time have been required to provide some type of financial information to the Federal Reserve.

The immediate predecessor report, the FR 886b, was developed in 1972. Since that time, the report has undergone numerous revisions. In 1990 the requirement for quarterly reporting of income and balance sheet information by banking Edge and agreement corporations was extended to investment Edge and agreement corporations as well. This increase in reporting activity by investment Edge and agreement corporations was prompted by significant growth in investment corporations and the resulting increase in risk exposure. In 2009, the reporting frequency was reduced to annual for Edge and agreement corporations with total assets of \$50 million or less.

The Federal Reserve uses the data for several purposes. Information collected on the FR 2886b is used to help plan and target the scope of examinations of Edge and agreement corporations and in the evaluation of applications. Data from the FR 2886b are also used to monitor aggregate institutional trends, such as growth in assets and the number of offices, changes in leverage, and the types and locations of customers.

As domestic deposit-taking institutions, banking Edge and agreement corporations conduct activities that affect the nation's money supply even though they are treated as foreign offices for most reporting purposes. The Federal Reserve uses the FR 2886b data in conjunction with data from the Call Report in the construction of the monetary aggregates and aggregate statistics on bank credit, nondeposit funds, and assets and liabilities of commercial banks.² In addition, the Federal Reserve uses the data in the construction of the flow of funds accounts and to compile structure data on foreign bank activity

Description of Information Collection

The FR 2886b comprises a balance sheet, income statement, two schedules reconciling changes in capital and reserve accounts, and 11 supporting schedules. This information is collected from all Edge and agreement corporations, although investment Edges file only four of the 11 supporting schedules: Trading Assets and Liabilities; Derivatives and Off-Balance-Sheet Items; Claims on and Liabilities to Related Organizations; and Past Due and Nonaccrual Loans, Leases, and Other Assets.

The FR 2886b respondent panel comprises 55 Edge and agreement corporations: 13 banking corporations and 42 investment corporations. The current FR 2886b reporting form and instructions are available on the Federal Reserve Board's public web site: <http://www.federalreserve.gov/reportforms/default.cfm>.

² Data from the FR 2886b are interpolated between quarterly reports to estimate higher frequency data. For dates following the latest quarterly report, values for data items are repeated until the next quarterly report becomes available.

Proposed Revisions

The Federal Reserve proposes to revise the item caption for Schedule RI, Income Statement, Memoranda item 1, Net change in fair values of financial instruments accounted for under a fair value option, by changing the parenthetical from (included in item 5.a.(6) above) to (included in items 5.a.(6) and 5.b. above). Schedule RI, Memoranda item 1 currently states that respondents only include net change in fair value included in noninterest income from nonrelated organizations. However, respondents may elect to apply the fair value option to instruments with nonrelated and related organizations. The Federal Reserve would also make the corresponding instructional revision.

To be consistent with revisions proposed for the FR Y-9C, the Federal Reserve proposes to revise the caption for Schedule RC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets, Memorandum item 1, Restructured loans and leases, to clearly indicate that the loans to be reported in this item should be troubled debt restructurings and to exclude leases. Under generally accepted accounting principles, troubled debt restructurings do not include changes in lease agreements. Also consistent with the proposed change to the FR Y-9C, the Federal Reserve proposes to revise the instructions for this item to include (currently excluded) loans to individuals for household, family, and other personal expenditures, and all loans secured by 1-4 family residential properties whose terms have been modified in troubled debt restructurings.

These revisions would be effective as of March 31, 2011.

Frequency

The Federal Reserve recommends no changes to the reporting frequency of the FR 2886b. The current reporting frequencies provide adequate timely data to meet the analytical and supervisory needs of the Federal Reserve.

Time Schedule for Information Collection and Publication

Edge and agreement corporations with assets of more than \$50 million file quarterly as of the last calendar day of March, June, September and December. Edge and agreement corporations with assets of \$50 million or less file annually as of December 31st. Banking Edge corporations and investment Edge corporations file the FR 2886b within 30 days of the as-of date. If necessary, a respondent is permitted to take an additional 15 calendar days to submit its completed report without request. All data are submitted to the Federal Reserve Bank District in which the reporter is domiciled. The Federal Reserve Banks then transmit the data to the Federal Reserve Board on a flow basis. All Edge corporation data are transmitted to the Federal Reserve Board by the 55th calendar day following the as-of date.

Data from this report are included in three Federal Reserve Board statistical releases: the weekly H.6 release, "Money Stock Measures," the weekly H.8 release, "Assets and Liabilities of Commercial Banks in the United States," and the quarterly Z.1 release, "Flow of Funds Accounts of the United States." These statistical releases are available on the Federal Reserve Board's public web site: <http://www.federalreserve.gov/publications.htm>.

Legal Status

The Board's Legal Division has determined that Sections 25 and 25A of the Federal Reserve Act authorize the Federal Reserve to require the FR 2886b (12 U.S.C. §§ 602, 625). For Edge corporations engaged in banking, current Schedules RC-M (with the exception of item 3) and RC-V are held confidential pursuant to Section (b)(4) of the Freedom of Information Act (5 U.S.C. § 552(b)(4)). For investment Edge corporations only information collected on Schedule RC-M (with the exception of item 3) are given confidential treatment pursuant to Section (b)(4) of the Freedom of Information Act (5 U.S.C. § 552(b)(4)).

Consultation Outside the Agency

On November 3, 2010, the Federal Reserve published a notice in the *Federal Register* (75 FR 67721) requesting public comment for 60 days on the extension, with minor revision, of this information collection. The comment period for this notice expires on January 3, 2011.

Sensitive Questions

This information collection contains no questions of a sensitive nature, as defined by OMB guidelines.

Estimates of Respondent Burden

As shown in the following table, the current annual burden for the FR 2886b is estimated to be 1,679 hours. The change to the total annual burden would be negligible with the proposed revisions. The FR 2886b respondent panel comprises 55 Edge and agreement corporations: 13 banking corporations (deposit taking institutions) and 42 investment corporations. The estimated reporting burden is lower for investment Edges, which file only 4 supporting schedules, than for banking Edges, which file all 11 supporting schedules. The annual burden of FR 2886b represents less than 1 percent of the total Federal Reserve System paperwork burden.

	<i>Number of respondents</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden</i>
<i>Current</i>				
Banking:				
Edge and agreement corporations (quarterly)	6	4	15.15	364
Edge and agreement corporations (annual)	7	1	15.15	106
Investment:				
Edge and agreement corporations (quarterly)	28	4	9.60	1,075
Edge and agreement corporations (annual)	<u>14</u>	1	9.60	<u>134</u>
<i>Total</i>	55			1,679

The total cost to the public is estimated be \$70,685.³

Estimated Cost to the Federal Reserve System

Current costs to the Federal Reserve System for collecting and processing the FR 2886b are estimated to be \$95,269 per year. With the revisions the estimated costs will increase to \$97,432 per year. The one-time costs to implement the revised report are estimated to be \$9,476.

³ Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rate (30% Office & Administrative Support @ \$16, 45% Financial Managers @ \$48, 15% Legal Counsel @ \$54, and 10% Chief Executives @ \$76). Hourly rate for each occupational group are the median hourly wages (rounded up) from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages 2008, www.bls.gov/news.release/ocwage.nr0.htm Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/